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RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
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UNCLAS MEXICO 003014

SENSITIVE
SIPDIS

STATE FOR WHA/MEX, WHA/EPSC
STATE FOR L/OES KIM
STATE FOR EB/ESC MCMANUS AND DUGGAN
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/GWORD
USDOC FOR ITS/TD/ENERGY DIVISION
TREASURY FOR IA (ALICE FAIBISHENKO)
DOE FOR INTL AFFAIRS ALOCKWOOD, GWARD AND RDAVIS
DOI FOR MMS ORR, TEXTORIS AND KARL

E.O. 12958: N/A

TAGS: [ENRG](#) [EPET](#) [ECON](#) [PGOV](#) [MX](#)

SUBJECT: GOM SHARPENS FOCUS ON TRANSBOUNDARY RESERVOIRS - FOCUS ON
BILATERAL NEGOTIATIONS

REF: Mexico 2657

¶1. (SBU) Summary: A technical workshop on transboundary reservoirs in Cuernavaca October 3-4 was organized to provide senior GOM officials with information on possible models for negotiating a bilateral treaty with the U.S. In attendance were numerous academic experts and consultants. The level of engagement and the details of the discussion demonstrated the GOM's commitment to follow up quickly on their August 20 proposal to initiate bilateral negotiations. GOM and USG officials met on the margins of the workshop to discuss potential next steps. From post's perspective, agreeing to open a bilateral dialogue on transboundary reservoirs would promote information exchange. Conversely, not engaging could fuel sensitivity about foreign designs on Mexican oil and impede efforts to reform the energy sector. End Summary.

¶2. (SBU) Secretary of Energy Georgina Kessel, Foreign Ministry Legal advisor Joel Hernandez and approximately twenty other senior Mexican officials from the Secretariat of Energy (SENER), Foreign Ministry (SRE) and Pemex attended a by invitation only two-day workshop on transboundary hydrocarbons October 3-4 in Cuernavaca. The only other participants in the workshop were speakers from academia and the private sector, Texas Railroad Commissioner Victor Carrillo, representatives from MMS and Emboff.

¶3. (SBU) The objective of the workshop (which was cosponsored by SENER, the Mexican university UNAM, and the Jackson School of Geosciences at the University of Texas, Austin) was to offer senior Mexican decision-makers information on the international experience and best practices for the development of transboundary hydrocarbon resources. An expert on joint development, unitization and framework agreements presented a variety of existing models and demonstrated how they have been applied in international agreements.

USING THE UK-NORWAY MODEL

¶4. (SBU) GOM officials seemed to agree that the Framework Agreement between the UK and Norway offers the most appropriate model for U.S.-Mexican cooperation in the Gulf. The Framework Agreement is executed between governments, not companies, and is intended to cover large tracts. After a discovery is made, this expert recommended "unitization" as the method to establish equity share in transboundary reservoirs. (Note: MMS officials and Econoff did not offer an opinion on this framework agreement or other parts

of the discussion. Legal and technical experts in the U.S. will have to consider the UK-Norway model and other agreements carefully before determining whether the USG shares the GOM conclusion. End note.)

15. (SBU) Conference participants asked detailed questions regarding the sharing of confidential information and building trust during negotiations. One participant asked whether a reservoir can be divided and exploited on both sides, an expert responded that the only way to optimally develop a joint reservoir is with a joint development plan and one principal operator.

16. (SBU) Several experts focused on the legal obstacles and challenges to negotiating transboundary agreements as well as the geological potential for shared resources between the U.S. and Mexico in the Gulf. There was a discussion between participants on whether the USG would be in violation of international law if it allowed companies to extract hydrocarbons from a joint reservoir absent a bilateral treaty. Senior GOM officials downplayed this scenario.

17. (SBU) Industry and MMS officials clarified that no transboundary reservoirs have been discovered in the Gulf of Mexico. They added that currently no exploratory drilling is being conducted in leased blocks along the US-Mexico boundary in the Gulf. Mexican officials were not convinced and stressed the need for the USG and GOM to work quickly to address potential transboundary reservoirs.

Proposed Negotiation with the USG:

18. (SBU) On the margins of the workshop, SRE Ambassador Joel

Hernandez and a small group of officials from SRE, SENER and Pemex who had participated in the August 20 bilateral consultations on the Western Gap Treaty (see reftel) met informally with MMS officials Kevin Karl, Michael Prendergast, Steve Textoris and Econoff to discuss the Mexican proposal to negotiate a Treaty on Transboundary Reservoirs with the USG. The GOM is clearly eager to move forward and Hernandez asked how the USG planned to respond to the September 10 Mexican proposal. Econoff responded that Washington is reviewing the diplomatic note but had several questions:

-- Memorandum of Understanding: GOM officials clarified that the MOU they propose in the diplomatic note would focus on information sharing. Perhaps the information sharing portions of the Western Gap Treaty could serve as a model. Mexico would also like to see some type of indication (although the language could be flexible) that the MOU would be a first step in a broader negotiation. We did not respond to the Mexican offer to provide us with a first draft of an MOU, offering that language like this would have to be crafted jointly, but it is possible that the GOM will begin preparing a draft nonetheless.

-- Land Border: We mentioned that including offshore and onshore reservoirs in a negotiation would complicate the process for a host of reasons, including different and various stakeholders. This, however, did provide a stepping stone to cross-border renewable and alternative energy between the US and Mexico. The Mexicans had a number of questions regarding transboundary issues which would best be addressed by legal experts in Washington DC.

-- Renewable Energy: The MMS pursued the DOI AS/LM's interest in exploring cross-border and bilateral arrangements for renewable and alternative energy. The Mexicans expressed interest in further discussions on this issue.

-- Briefing Industry: Hernandez requested that the USG and GOM coordinate closely before briefing industry on the Mexican proposal to negotiate transboundary reservoirs and that both sides refrain from meeting with industry until the Mexican energy reform package is approved by Congress (i.e. November.) We agreed that some combination of joint and individual briefings with industry may make sense.

-- Task Force: Hernandez was eager to establish a "Task Force" to start bilateral discussions on negotiating a possible treaty. He

suggested that a Mexican team could travel to Washington in November to meet with US experts and continue exploring the ideas and clarifying questions on both sides.

-- MMS Briefing: Karl extended an invitation to the GOM to visit MMS offices in New Orleans for a briefing on unitization agreements that the USG uses. GOM officials were enthusiastic and agreed to follow up.

Comment:

¶9. (SBU) The timing of the workshop and the urgency that the Mexican participants placed on working with the USG on a binding bilateral agreement demonstrate that Mexico may believe that either a transboundary reservoir has already been discovered or will be discovered imminently. By engaging the USG on this issue, the GOM hopes to have a bilateral agreement in place which would commit the USG to a unitization agreement before a discovery is made. From the GOM perspective, such an agreement would not only allow resource sharing, but could also head off a negative domestic debate about the "straw effect", which claims international oil companies on the U.S. side of the boundary could siphon off significant oil reserves from the Mexican side of the border.

¶10. (SBU) Although the issues involved will certainly prove complex and difficult, we see value in at least opening a dialogue with the GOM on this topic. A bilateral dialogue could open the doors to information exchange and provide us with the seismic data that we have long sought from Mexico. Refusal to sit down and start talking about this could fuel Mexican sensitivity about foreign designs on Mexican oil and impede efforts to open the Mexican energy sector to fuller international participation competition.
GARZA